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Agenda Item 7

October 17, 2011

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. **SUBJECT:** Infrastructure Investment in California – State and Local Government Outreach Plan
- II. **PROGRAM:** Real Assets - Infrastructure Program
- III. **RECOMMENDATION:** Information – Update regarding Outreach Effort for California Infrastructure Investment

IV. ANALYSIS:

In April 2011, the Investment Committee approved the Infrastructure Program strategy for approximately \$5 billion of investment capital. On September 12, 2011, the Investment Committee directed staff, among other things, to:

- Target investment of up to \$800 million in California infrastructure over a three year period; and
- Develop a plan for outreach to state and local governments to explore what role CalPERS and other U.S. pension systems can play to facilitate infrastructure investment in California.

Staff was requested to return to the Committee in October with its outreach plan including identification of staff and resource needs.

This Agenda Item provides staff's plan to outreach to state and local government entities regarding investment in California infrastructure (the "Outreach Effort"). The Outreach Effort is designed to address two overarching objectives of the Committee's Motion:

- 1) Coordination and Policy Process. Conduct a broad array of discussions to increase the potential for investment in California infrastructure by CalPERS and other pension systems with whom CalPERS may partner; and

- 2) Investment Pipeline Process. Enhance the current infrastructure investment pipeline and execute investments in California-based infrastructure businesses and projects.

Approach to Outreach

The Coordination and Policy Process will entail: a) multi-party, roundtable workshop meetings and open engagement on pertinent policy and legislative initiatives. This process will:

- Provide opportunities for stakeholders to share information regarding project delivery and service goals, and perspectives on opportunities and challenges;
- Provide stakeholders with information about CalPERS investment programs and initiatives;
- Identify policy changes that could make infrastructure investments by pension plans more viable; and
- Provide opportunities to explore how CalPERS may best contribute to improve the conditions, and increase the potential for infrastructure investment by pension funds.

The Investment Pipeline Process will be one-on-one, private meetings to explore potential opportunities for investment by CalPERS. The one-on-one meetings between CalPERS Infrastructure investment staff and key State and local agencies will serve to:

- Increase mutual awareness between CalPERS and government agencies of mandates, goals, initiatives and projects;
- Strengthen the investment staff's network of contacts for California infrastructure investment; and
- Potentially stimulate development of a pipeline of suitable opportunities for investment.

Implementation and Reporting

Staff proposes to undertake the following activities in connection with its Outreach Effort:

1. Coordination and Policy Process: Real Assets staff in collaboration with External Affairs staff will:

- a) Within six months, organize and lead two to four roundtable workshops on California Infrastructure, involving representatives from a selection of major public sector agencies, pension systems, and advisors with expertise on public infrastructure policy, financing and procurement;
- b) Document and report to the Investment Committee key findings and recommendations arising from the workshops;
- c) Openly engage with key stakeholders and market participants to discuss public policy and legislative initiatives pertinent to infrastructure investment in California; and

2. Investment Pipeline Process: Infrastructure Program staff will:

- a) Within six months, engage in one-on-one meetings with at least one dozen key State and local government agencies to explore opportunities for investment;
- b) Provide to the Investment Committee a confidential report regarding potential investment opportunities arising from the one-on-one meetings; and
- c) Pursue suitable opportunities for investment on an ongoing basis.

In addition to the aforementioned outreach activities, earlier this month staff participated in two important industry events: 1) the roundtable workshop, *California Infrastructure – A Path to Economic Recovery and Jobs*, held by the California Foundation on the Environment and the Economy on October 10-11, 2011; and 2) the *USDA Investment Roundtable* to discuss infrastructure investment in rural America, held by the United States Department of Agriculture in New York on October 6, 2011.

Staff anticipates that there will be abundant opportunities for dialogue with public sector officials and pension investors regarding domestic infrastructure investment. Staff welcomes such opportunities for dialogue, but nonetheless will be judicious as it pertains to expenditures of time, effort and cost.

Staff Resource Requirements

The Infrastructure Program is presently staffed below levels prescribed within the Infrastructure Strategic Plan (April 2011), which did not incorporate consideration

of any demands related to the Outreach Effort. Staff intended to request the additional resources identified in the Infrastructure Strategic Plan for the 12/13 budget year. In light of the increased emphasis on investment in California infrastructure, staff now plans to accelerate this resource request. Staff will request two planned investment staff positions plus one administrative position for the Infrastructure team through the CalPERS mid-year budget approval process.

Aside from Infrastructure Program resources, the Chief Investment Officer has given direction for recruitment of a Senior Portfolio Manager dedicated to providing broad leadership and coordination for key cross-asset-class initiatives, including California investment. Laurie Weir, Portfolio Manager, Real Assets has been asked to fulfill this role on an interim basis. This position can be funded from within the existing Investment Office budget. Staff intends to request through CalPERS mid-year budget process the approval of:

- One additional Investment Officer III position to report to the SPM. This position will be focused generally on California related investments and initiatives across the total fund; and will focus specifically on work associated with the Coordination and Policy Process related to investment in California infrastructure.

CONCLUSION

Staff proposes a dual-track Outreach Effort which involves, a), multi-party roundtable workshops and open engagement to explore potential roles for CalPERS and other pension systems in facilitating infrastructure investment in California, and b), one-on-one investment meetings focused on exploring investment opportunities with key State and local agencies.

To support staff's immediate efforts and its ongoing efforts to maintain an intensive focus on investment in California, while continuing to support the broader management and growth requirements of the Infrastructure Program, staff will pursue approval for accelerated recruitment of Infrastructure staff resources and one additional resource to support the Coordination and Policy Process effort.

V. RISKS:

There are no risks associated with this information item.

VI. STRATEGIC PLAN:

This item supports the following strategic goals:

- Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and second, to minimize and stabilize contributions.
- Goal IX: Achieve long-term, sustainable risk adjusted returns.

VII. RESULTS/COSTS:

Costs associated with this initiative are anticipated to be roughly \$80,000 to mainly cover staff travel costs and costs associated with hosted roundtable events, plus approximately \$140,000 of personnel cost (including benefits) for an additional resource to support the Coordination and Policy Process efforts. The estimate excludes expenses related to additional Infrastructure investment staff resources, because these costs were part of the Infrastructure strategic plan and would have been incurred regardless of this initiative.

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